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KENNETH LAY, JEFFREY SKILLING, AND JOE SUTTON

July 13, 1999

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MR. LAY: Good afternoon, and obviously a little bit of interest in this today. You'd think maybe we've made some changes around the company or something, but delighted that you did come over, and we are going to try to move rather quickly today, not more than usual, but a couple of changes or a couple of things I want to mention here at the outset.

We will, of course, have Q&A when we finish this presentation, which we are going to try to get through fairly quickly. You have cards, I think, on your seats, chairs there that you can write in other questions. We have had a lot of questions already submitted, and we are today going to also try to go back to what we did many years ago or a few years ago, and that is give you a chance to stand up and ask the questions from--from your location.

We do have some mikes that will be going up and down the aisles, but you've got to be thinking about any questions you might have as we go through the presentations.

And, of course, today, we get to figure out or see if Joe Sutton is any good at answering these questions, too.

[Laughter.]

MR. LAY: And I think Jeff has to leave a little early to meet a schedule in New York tonight. So he's going to be bailing out on us a little early, and that will just give Joe that much more opportunity.

But let's get into this. First, let's talk a little bit about the second quarter performance. Of course, obviously, our stock has been doing very well, about 50 percent thus far this year after a really strong performance last year and really a strong performance for the last decade. As you can see, 50 percent versus about 15 percent for the S&P 500 and about 20 percent for our peer group.

Second quarter financial performance was very strong, very strong, and we are not going to go into a lot of detail on that because you will be reading about that, hopefully, in the paper, in the press release and so forth, but overall, as you can see, all of the wholesale groups and retail groups did extremely well.

E&P or EOG, primarily that was a write-off of an offshore property or depreciation, but offshore property.

Our pipelines in Portland General, of course, continue to provide good earnings and cash flow, and then, of course, you can see just really strong growth in EBIT, of

the wholesale energy operation conservatives, which we are putting communications now also, and we will talk more about that in the presentation.

Our retail energy group, doing very well, and, of course, in total, our earnings per share were up 29 percent year to year. Net income is up even stronger, but, of course, we have issued more shares over the last year.

This is a good slide to kind of just show you the growth in the company. Revenue up 47 percent from about 6.5 billion to 9--a little over 9.5 billion quarter to quarter. We are on a run rate right now of about 10 billion a quarter, of course. We will probably end up the year somewhere in the mid-40 billions, 45-, \$46 billion of revenue.

Net income, up 53 percent from 145 million to 222 million, and, of course, earnings per share up 29 percent, as I said, from 42 cents to 54 percent. Now, with all of that, we are only down about a \$1.50 today. That's probably very good we didn't have a weak second quarter, but, of course, we have had a big run-up over the last--not a big run-up, a modest run-up. But we have had a fairly good increase in our stock price over the last week or two, and I think, as quite often happens with the facts out, they've

got to sell off a little bit, but we will get that back.

And again, strong growth in the underlying operations. Physical volumes, again, up about 40 percent. That is about 33.7 billion cubic feet equivalent to kind of put that in terms that many of us in this audience are a little more comfortable with than the BBT, billions of BBT use.

And, of course, retail energy services, 1.7 billion of new contracts this quarter, 3.4 for the first half. So, really, for the first half of this year, almost as much as we had all of last year, and some really big contracts that look like they'll probably come through in the second half of this year, so should be able to exceed their \$8-billion target. And again, heading toward a fourth quarter of earnings positive from the retail business and, of course, hopefully big growth there next year in earnings.

Again, if we kind of go down the different businesses, expiration production, strong increase in production, up about 6 percent on a worldwide basis, up over 40 percent in India. So India is really kicking in with big growth.

Transportation distribution. Again, Northern Natural settled a rate case that was a very significant

event during the quarter, settled it on good terms, setting us up for the rest of the--really for the next 3 years or so probably.

Phase five, expansion, Florida Gas. Of course, just a few months ago, we announced our phase four expansion, which is about a 350-million expansion in Florida.

We now have just recently announced a phase five, which is another \$250-million expansion there as that market continues to use a lot more gas, particularly for power generation.

The wholesale business, of course, we talked about the physical volume is up almost 40 percent, but, indeed, we had growth in every commodity in every region in the second quarter, which, again, shows you the broad-based nature of the expansion.

3,500 megawatts of powerplants. Basically seven powerplants came into operation during the seven--second quarter, including 1,300 megawatts of power that was fast-tracked last year after the June problems with electricity, and they came on stream this June, and we think faster than anybody else in the country could have done that, but also some big plants came on this quarter, like

India, like Turkey. So we are seeing lots of those projects, been underway for a long time now, generating positive cash flow and earnings.

The merchant investment portfolio, very active, very profitable, and, of course, our new communications business, which you will hear a little more about, but it is now firmly established, not only firmly established, but firmly established as a core business of Enron. And as you are going to see in the organization in a little bit, that is all part of the reorganization and how we are going to run the company in the future.

Enron energy services. Again, very large outsourcing contracts. They just recently announced an outsourcing contract with Swiza [ph], the big dairy supplier, dairy product supplier, our largest to date nationwide covering multiple plants and, again, showing the capacity that we have that nobody else has.

They are well on track, as I said, for positive EBIT in the fourth quarter and exceeding their \$8 billion. They have over \$20-billion backlog of contracts that are far advanced. Forty percent of those, that number, that \$20 billion--40 percent of those contracts are contracts that will exceed a billion dollars each, and most of them are



total outsource contracts.

And, of course, announced today, our 2-for-1 stock split which has been a question from this group at a number of previous meetings. So I am sure the question today will be "Well, when are you going to split it again?"

I am now going to call on Jeff to come up and talk about corporate strategy.

MR. SKILLING: Thank you, sir. Thanks, Ken.

I will go through corporate strategy and some information on business unit strategies, and then I am going to turn it over to Joe to talk about the organization.

I know you all are interested in the reorganization that has just occurred and probably wondering why we've done it, and particularly after Ken describes the success of the company. There is nothing broken in the company. So why are we trying to fix something?

And I think we all have a tendency--I know I do--kind of like driving by looking in the rear-view mirror. That is a pretty dangerous thing to do. So what we would like to do is, with all of the good news that we have had for the quarter, we would like to flip now to talking about what's happening in advance, the kinds of things that are going on in the marketplace and why we think it's important

for us to make some changes today to make sure that we are well positioned in the future.

And to do that, I am going to talk some about corporate strategy and what we are trying to accomplish, where we think the company can go, because it's a great story and a tremendous opportunity for the future, and then talk some about business unit strategies, what's going on in each of the businesses and how we would like them to capitalize on the opportunities that we sees in the marketplace today.

So let me start first with looking out in the future and what we're seeing. I think it's fair to say that right now, we are going through a major transformation in the economy, and this is happening around the world. And we've, I think, traditionally thought of ourselves as purely an energy company, and I think we are becoming more and more convinced that we have to think more broadly than just an energy company because these changes are very, very fundamental to how companies operate.

And you've heard a lot about it. You've heard a lot about the Internet and about new computing technology and how that is likely to change businesses. Unfortunately, I think we are convinced that it will change our

business--not unfortunately. Actually, it's a tremendous opportunity for us.

And let me give you some of the thinking that is going into that, so you can understand why we are getting a real sense of urgency about this because I think there is a once-in-a-lifetime opportunity given Enron's current position and what's happening in the marketplace for Enron to really jump, to have a significant increase in our performance for the future, and that is what we are really trying to accomplish right now.

This new economy is different, and the model that we're seeing--and we are starting to see this evidenced in a number of our businesses around the world, but this new economy is different on a real fundamental basis.

We are seeing that successful companies are increasingly knowledge-based businesses, and this is starting to show up in the numbers in kind of an unusual way.

When I went through college and took economics, one of the first laws they taught us was the law of diminishing returns, that as you keep doing something over time, it's worth less and less as you continue doing it.

What we are seeing in some of these new businesses

that are using computer and communications technology is that there are, in fact, increasing returns. A good example of that is Microsoft. When they come out with a new software package in Microsoft, the first disk costs a couple billion dollars. The second one costs nothing. It's a different economic paradigm than what we are used to seeing, what we have seen in acid-intensive **[asset-intensive]** and people-intensive businesses historically, and so we are starting to see businesses where there are increasing incremental rates of return.

This is very important because, if we can see those kinds of economics, then growth becomes critical, because if we can continue to grow, we can knock down or kick down our cost structure so that we improve our competitive position, so we can grow faster and so on and so forth.

We are seeing this kind of effect in many network businesses around the world, and we are becoming increasingly convinced that in North America, Europe, South America, and India, our businesses are starting to look like network businesses. It costs a lot of money to put in place the contracts and the physical assets and the people to get a network established, but once you have it in place, that

cost is sunk, and every incremental unit of business that we can push through the network brings high rates of return to the company which allows us to grow in the future.

These network-based economics appear to be occurring in our network businesses around the company, and we think this is a big opportunity for the future.

As we look at that, a couple of things are critical; first, technology. We need to increase the technological component of what we do. Much of what we do in North American and Europe particularly on the trading side is very amenable to the application of new technology, and we need to significantly increase the amount of technology that we have employed in that business.

Innovation. We obviously have always had a very strong point of view about innovation. It's likely to become more important in the future than it has been in the past.

Last, but not least--and this is where this sense of urgency comes from--in many of these businesses, you are starting to see a winner-take-all outcome.

There was a very interesting article in The Wall Street Journal a couple of weeks ago that talked about Gold Medalists, and in many of these new-world businesses or

new-economy businesses, the Silver Medal winner doesn't do very well, that all the returns go to the Gold Medal winner. If that's true in these kinds of businesses, we want the Gold Medal. We don't want the Silver Medal. So we've got a period of time that we have to grow the business, capture market share, take advantage of these economics, so that we can continue to grow in the future and build our business in the future.

You are starting to see this showing up. This is an interesting chart, and I think it just kind of hints at it. And I won't spend a lot of time on it, but this chart shows rates of return in industry, and it shows them in 1966 as return on equity and in 1998. And what they tell me--and I haven't actually gone back and proven this, but what they tell me is that Chart 1996--1966 is the kind of chart you would have seen for the last 50 years, you know, nice, smooth, bell-shaped curve. Rates of return are high or low, but there's an average, and it's a nice bell-shaped curve.

But in the last couple of years, we have seen a new tail on the distribution where you are starting to see some companies using these new economics, using computers, using the Internet, using communications to significantly increase rates of return in their businesses, and it is this

little tail that has been driving stock market performance of most companies, driving most of the stock indices for the last couple of years.

If you are in that tail, you sell for a very, very high multiple because it means you are growing quickly and your incremental capital requirements to grow are pretty low. If that's true, that's where we want to be as a company longer term.

We are seeing it inside of Enron. We are leveraging our existing asset base into knowledge-based businesses with high returns. We have developed these networks. We are applying skills across all of these networks, and there are new developing networks that we are seeing in other parts of the world that give us new options for the future. So we see these economics, and we think increasingly we are going to have to operate based on these economics.

Just to give you a sense of this, we are already seeing it across the financial performance of our companies. If you split our businesses into two chunks, you split them into businesses that have some of these network economics and some businesses that provide platforms for our network businesses, like EOG, Gas Pipeline Group, Portland General,

and Zurich's [ph], these network businesses tend to be relatively low capital intensity, high-growth businesses. The other businesses tend to be higher capital intensity, but we need them to create the platforms for growth in these network businesses.

But if you split the company into those two categories just for a moment and you look at the rates of return and growth rates and those two categories over the last decade inside of Enron, this is the picture that you see.

In terms of revenues, those network businesses now comprise about 90 percent of the revenues, and that has been growing at, believe it or not, a 30-percent compounded growth rate, annual growth rate over the last decade, and if you look at the rate of return, our profitability of those businesses, they have grown at a 40-percent compound annual growth rate for the last decade. Those are big, big numbers. Those are Internet kinds of numbers, very, very significant numbers.

And we think that that's a real opportunity for Enron moving forward. So, in terms of strategy and the thing that really is, I think, underpinning the organizational changes that we are going to talk to in just



a moment, the following things.

First of all, we believe that the communications business absolutely fits this model, and the longer that we are exposed to our communications business, the more convinced we are that there is enormous, enormous upside opportunity in that business, and we are adding communications as a core business of Enron. It will become an important growth vehicle, an important platform for our growth in the future.

And I don't know if we will change the tag line, but natural gas, electricity, and communications is really the way we are going to be thinking about it, moving forward in time.

In all of those businesses that I mentioned, we are going to encourage the development of these network economics. We are going to be spending more time and effort and money on technology. We are going to be improving and increasing the service content of what we are providing because it tends to provide higher rates of return and involves innovation, and we are going to extend our market reach.

We are going to grow the business, grow our market share, grow the markets that we are operating within.

Overall, we believe that that should lead to accelerated growth rate in the network businesses, and the reduction on average of capital employed in our non-networked businesses. That doesn't mean we will be deploying less, but in terms of the relative mix, if we are growing our revenues, growing our income on the network businesses at an extremely high rate, our average capital employed in the business will be dropping, and that is very positively viewed by our investors as they see our growth and they value that growth in the future in our stock price. So those are the conclusions that we came to.

And I want to give you just a sense for what this opportunity might look like and how it is going to impact us in the future by talking for just a few minutes about business unit strategy and talk just for a second about how these different networks operate.

Just in thinking about how we articulate this and how we talk about it outside, each of these networks involves a couple of things. First of all, as we have seen in all of the businesses we have created in Enron, we start with physical assets. We start with pipelines. We start with powerplants. We start with the physical hard assets that give us a participation in the business.

We layer on top of that, contract access across other people's physical assets so that we can begin providing services directly to customers using our own assets and using other people's assets.

And then we have tended to create a market-making capability, so that we can make sure that when our customers want something, we have a network in terms of physical assets and contract access, we have a physical network, and then we can source the lowest-cost components of the service that our customer wants. And we do that by making markets, and that's what's happening on the 30th floor, the 31st floor in the Enron Building and at other places around the world.

Once you have got that network in place, you have an enormously flexible ability to deliver a service and a product to a customer across an entire continent, and then from there, you start building applications. And in all of our businesses, we are coming up with a range of applications that take advantage of that network to provide unique services at low cost to our customers. So that's kind of the thought process.

And I will just walk you through North America as an example of that, just to hopefully make it a little more

real.

I'll start first with the physical assets of North America. You can see the pipeline networks of GPG, powerplants that we own and are under development, storage facilities, intrastate pipelines. That's the underlying back bone of our network in North America, the physical assets.

We layer on top of that a range of contracts that give us access to other people's assets, other people's storage fields, other people's pipelines, other people's powerplants, so that we supplement or complement our assets, so that we get a broader reach, a broader capability to delivery to our customers.

And then we layer on top of that market-making, where we have become a major player in buying and selling underlying components of the services and products that we are selling in the marketplace.

You have seen this set of slides before a lot of times, but it's just a consistent story. We've created through physical assets, contract access, and market-making. We have created a very flexible network that allows us to delivery **[deliver]** natural gas and electricity in many, many different forms all across the continent on very, very short

notice. That's the beginnings.

And then from there, you add on a range of applications, and the applications range from physical delivery contracts to price-risk management contracts, settlement services, peaking and storage services, commodity-denominated finance, which was our original finance service offerings, the operation of utility facilities.

We are doing pollution credits and fuel packages to tie those together, and there is just a whole range of things that you can provide to the customers. And that's what we provide, and we can provide it faster, higher quality, more reliable, and lower cost than our competitors because we have that sort of a network in place.

Now, once you have that network in place, every incremental unit of business that we can push across that network has high rates of return for the company, and that's where growth comes in. So that's the way it works in North America, and we've got the growth.

If we could just hang onto our market share in North America, this is what the outlook is. This chart shows the total non-regulated energy market and how quickly it is growing, and you see growth from two things.

One, the overall energy market is growing, but, more important, we are seeing that market transition from the old regulated structures to non-regulated structures. You add those two factors together, we have a huge growing market in front of us. We've got a great network in place, and now the name of the game is to grow that, buy new products and services that we can shove through the network to increase our rates of return, increase our growth rates and the futures, a very, very positive opportunity for us.

And so far, we've acted or executed on it great. The physical volume is way up. The financial volume is way up.

In terms of market share and position in the markets, we are by far the largest player in these markets, which positions us extremely well for the future. So that's--that's a way of thinking about it and what we would like to see in the future across all of the company.

We also are seeing that, as time goes on, we need more sophisticated product and service offerings that draw on many skills from all across Enron, and this is a real busy chart and I won't force you to go through it because it probably is too hard to see from the back of the room, but these peaker plants that we built as a part of our strategy

in North America drew on people and capabilities from all over our company.

As Ken said, we got this stuff up in less than a year. There is no other organization in the world that has accomplished what we accomplished, getting those peaker plants in place and operating in the Midwestern United States over the last year, but it took a lot of people, a lot of skills from all over Enron to come together to make that happen.

This is the model of the future. We need to create one Enron where we can get these capabilities from all over the company together to provide a distinctive product or service to our customer. So that is really the model.

We have got lots of opportunity all around the world. In Europe, we are in the process of developing this network that would be similar to something that we have in North America. This is what the picture looks like today.

Sorry for that noise.

This is what the picture looks like today in Europe. Growth rates are even better. If we can establish the network there--this is what the market looks like in Europe. Basically, the U.K. and Scandinavia have been open

now for a number of years. As of February 18th of this year, the continental markets opened up as well. So you see a big jump in the potential market that occurs in 1999 and continued very strong growth in that market. This is an enormous market, and we are way ahead of the competition right now in Europe, which gives us a tremendous opportunity for the future, as this market grows.

I will give you a sense for how we are doing in this market. This shows volume growth first quarter or--I'm sorry--second quarter of '99 versus second quarter of 1998, 118-percent increase in volume, number of transactions up 131 percent. Of particular interest is the blue portion of the bar on the right, the two bars on the right. We get 1,650 transactions, natural gas and electricity, on the continent of Europe in the second quarter of 1999, 1,650. That compares to 15 last year, so 100-fold increase in activity. It just gives you a sense for how quickly that market is opening up. We are really, really well positioned in this marketplace.

In the U.K., where we have been for a long time, we are the second-largest gas marketer, and we are the largest power marketer. I think it's possible we will be number one in both of those before the end of this year.



Scandinavia, we are the largest power marketer.

Continental Europe, we are the only non-European participant in gas or power at this point on the continent, and we are by far the biggest. We may be 10 times as big as the next biggest player in the continental markets as they open up, so a tremendous opportunity for us in the future.

South America, a phenomenal position in South America that has been developed over the last several years, and this is what the growth rates look like there. Are you starting to get the picture? Great networks, enormous growth potential in these marketplaces.

The retail business, putting together the network to deliver services in retail, this is what that market looks like. This is the total electricity open to competition as States deregulate based on current regulation and legislation in place in the States in the United States. There is some projection of additional opening of some of the States, but that is the kind of growth rate that we see in the retail markets.

Now, let me talk about communications for just a second. This is the network we are putting in place. This will be the picture at the end of the year 2000 where we have 60 points of presence combined by our fiber network,

which for all intents and purposes is currently in place. This is what that market looks like in terms of growth. So this is growth in global high-bandwidth market by a number of participants, a number of users. This is--this is enormous growth for the future.

And we are capitalizing on that capability today, number of cities served, installed points of presence, and the number of customers that we can directly access through desktops. I like these kind of charts.

But overall, that's the challenge for us. I think we believe that there is an enormous opportunity ahead of us as a company, and we could probably just rest, given the success we have had over the last couple of years, but I think the opportunity is so significant and the opportunity time frame is so narrow that we have to move very quickly to make some things happen, and the challenges we sought was how do we take the resource base, which are the people sitting in this room, and deploy it against this opportunity.

And that meant that we had to start breaking down some silos within the company, had to make it more possible for people to move around different areas of the company to participate in the growth of the different areas of the

company. And we had to get the placed energized because we don't have much time, and we have an awful lot to do over the next couple of years, the tremendous opportunity.

It will go away. This is a once-in-a-hundred-year sort of thing, and we believe we've got to jump on it now while we have a chance. So that's what we were thinking. That's the general--general concept.

It's, I think--well, it's not "I think." It is a tremendous story, a great opportunity for the company, and I think we can commit from the top management side that we are going to go for it. We are going to see how we can capitalize on this opportunity to grow the business in the future, and that's what our commitment is to you.

With that, I will turn it over to Joe to talk about the specific organizational changes and how that's likely to play out.

Joseph?

MR. SUTTON: Thanks.

Wow. I mean, stop and think about it. Great earnings quarter, a stock split, a new building, and all kinds of opportunity. You all should be feeling pretty good, right? Give yourselves a big hand. A big hand. Come on. Get rowdy. All right?

[Applause.]

MR. SUTTON: I think it's--am I on now? All right. Yes. I can't really stand. I'm going to kind of move around a little bit, if you don't mind.

First of all, I get the easy part because none of you care about the organization, do you? It doesn't really matter where you are going to work. You just care about the numbers up here.

What I am going to take you through very briefly is the organization we have put together, that Jeff and Ken and I as well think will help enable this organization to realize all of those great things Jeff just told you about. So let me punch the button here and see if we can get the organization up here. I am sure you have it all memorized by now.

Okay. Here we go. Now, most of you can't see this. So I will talk you through it. It's a ploy. I can talk more that way.

First of all, the Office of the Chairman is going to be led by Ken Lay, Jeff Skilling, and they sought to involve me in there. So I will be helping out some up there as well.

But if you look at the organization, what you see

now are a lot more boxes than you saw before, a lot flatter organization. Now, what does that mean to you? That means to you a lot more opportunity, a lot more chance for involvement, empowerment, growth in the company.

So, if you looked at the first boxes, that is what we call the corporate staff. What we try to do is take the corporate staff, reduce it to those functions that are critical to us advancing as a company. The corporate staff will, in essence, support all of the business units and pushing forward their agenda, of course, which is increased earnings and growth.

The first box up there in the corporate staff is legal. Is Jim Derrick [ph] here? Jim here? I guess not. Well, Jim Derrick will continue to lead the legal effort as the general counsel. Rob Walls will move up under him and work on the transactional part of the company, and we have other lawyers who all fit into these business units in support of their businesses.

Next, we have the--what's the next thing up there?--risk assessment function and control function. We have a very--you know, some would argue what is the best in Enron, whether it's risk management or risk assessment. I think that one thing we would be very proud of is the fact

that our risk assessment function in Enron has been exceptional. Where others have lost or others haven't done things right, we have always managed to survive tough times and come through those in better-than-average ways.

And Rick Buy [ph]--is Rick here? Rick, why don't you stand up or come up on stage for a minute or something, so they know who you are. Come on up to the stage, Rick, so they can see who you are.

Let's give Rick a big hand. Okay?

[Applause.]

MR. SUTTON: Now, Rick is the most important guy in the company because he's the guy you have to get your deals approved through. Okay?

Rick will head the risk assessment function, and he's been doing that in a great way until now.

We have accounting and HR headed by Rick Cozi **[Causey]** [ph]. It makes a lot of sense to put HR under accounting. Everybody knows that, right? Well, accounting and HR are under Rick. Rick is here.

Rick, why don't you give your--jog around the room or something so they can see you. Raise your hand. There, Rick Cozi.

[Applause.]

MR. SUTTON: Rick and--right now, all of the people working in HR will tuck up under Rick except those that are already in the business units, and we will be sort of rearranging that as time goes on from an HR perspective.

You have heard both Ken and Jeff talk to you about intellectual capital and human resources. The reason we are where we are is because of you. We have the best people of any company in the world, and we have to keep those people coming and keep them motivated. And so HR is a very important function for us, and we are paying a lot more attention to it.

I think it's safe to say that, eventually, HR will probably break out as a primary staff function up there, but, right now, to keep things going and not lose momentum, it will stay under Rick Cozi **[Causey]** and his supervision.

As well, accounting, the accounting function, some will move up under Rick. Some will be forced down into the business units as we go forward.

Investor relations is Mark Conig [ph] **[Koenig]**. Is Mark here? I think Mark went off to New York to get ready to pump the stock price up in the next few days, but Mark has done a great job in his group and what we've done to get our message out to the analysts and the investor--and

the investors in Enron stock.

Steve Cane [ph] **[Kean]**. Steve is here. Steve, stand up. Just give Steve a big hand. Okay?

[Applause.]

MR. SUTTON: Well, that's it.

Steve is--will act as the chief of staff, and he will have under him the government relations, community relations, public relations, administrative and all the other relations we have in the company. Okay? They go under Steve.

[Laughter.]

MR. SUTTON: He's got his hands full, I'll tell you. I have some bad relations.

And, of course, the last box you see there is the corporate development box, and that was Cliff Baxter's [ph] function. Cliff has gone down to take over North America, and we will decide how we will fill that box and take care of that going forward.

The next row you see is what we call global functions, and these global functions are competencies that we have, that we put across all of our business units. So these work in a matrix function across all the business units.



The first one you see up there is risk management. That's Greg Whalleys **[Whalley's]** group. Is Greg here? Okay. Well, that's the primary--the risk management, the traders, the risk management activities we have in the company, a very large part of our business, and that ought to be spread throughout all of the business units. And Greg will manage that activity.

Finance, we have Andy Fastow and Jeff McMann [ph]**[McMahon]**. Are they here, any one of them here? But they've got--they've been doing great work for us from the finance side. Andy is the chief financial officer, and Jeff is the treasurer. In terms of maintaining our credit ratings, our balance sheet, funding of money we can invest, capital, we are committed to do that across all of our business units.

Many of the finance functions, for example, project finance, will tuck up under the finance activity.

Asset operations is led by Curt Hunikee [ph] **[Kurt Huneke]**. He has been doing that across the company, except for the gas pipeline group, up until now, and that will continue.

Enron engineering and construction under Larry Uzo **[Izzo]** [ph], the same thing, a global activity. He'll be

our engineering and construction and technical arm across all of our company and serve all of our business units. I don't think Larry is here, is he? Okay.

Then, of course, we've got--it's called technology, but this is e-commerce. This is the neat stuff, the whiz-bang stuff we are talking about in the company, and Mike McConnell will run that across the whole company. IT will go under Mike McConnell, and we will be looking for ways we can maximize our potential from an e-commerce perspective.

If you look down in the next line, that is our wholesale business units for the most part, retail business units, our core businesses, and across those businesses, you will notice you don't see any ECT anymore or any EI anymore. There's no more ECT, no more EI. They were great companies, great concepts. They're for this company--a huge distance. Now we're all Enron. We're all Enron. We have Enron North America, Enron Europe, Enron South America, Enron India, and across the table there.

North America will be headed by Cliff Baxter and Kevin Hannon [Hannon][ph]. Are either of them here today? They will continue to run Enron North America, a great business as Jeff just showed you.

Enron Europe will be run by Mark Freebert [ph] [Frevert] and Jeff Sharup [Sheriff] [ph]--I mean John Sharup [Sheriff]. Of course, they're out of London.

The Southern Cone or South America is run by Jim Bannentine [ph] [Bannantine] and Crista Dulu [ph] [Christodoulou], and they are located in Sao Paulo.

India is Sanjay Bottenhogger [ph] [Bhatnager] and--if you look at these businesses, as Jeff talked to you about physical assets and contract assets and market-making, if you go across North America, certainly it's realized each of those areas, good physical assets, good contract assets. Certainly, we are making markets every day.

In Europe, I'd say we've got--we're working on the physical asset side. Certainly, we've got--we're working on getting more contracted assets, and we are beginning to make the market there, as you saw from the charts.

South America, good physical assets. We are now evolving to the next two steps.

India is sort of the same way, good physical assets, but we're not evolving. If some of the markets to the right, like the Caribbean, Middle East, and LNG that David Hogg [ph] [Haug] is running, we are still trying to get a good physical asset base in many of those markets and

then grow from there.

Asia, Africa, and China, the same thing. That's headed by Rebecca McDonald. Is Rebecca here today? Okay.

And then, of course, we have a very important part of our business, the retail **[retail]** part of our business, EES, headed by Lou Pie [ph] **[Pai]** and Tom White. Are they here? I think they're out trying to sell some goods right now, but Lou Pie **[Pai]** and Tom White are very important to our growth. They make great progress in that perspective, and they'll continue to run that company.

And then I guess the new part of our core business, the communications part, is headed by Joe Hurko **[Hirko]** [ph] and Ken Rice. Are either of them here today? And they're--of course, we're putting great hopes on them.

We have other businesses at Enron. A very fundamental business to our whole effort is the Gas Pipeline Group, and the Gas Pipeline Group will essentially not change and it will be run by Stan.

Stan is here. Stan Horton [ph]. Give Stan a big hand. Stan Horton.

[Applause.]

MR. SUTTON: While the rest of us for years have been running around trying new things, Stan has been making

money. So he keeps on making money for us.

We also have Enron oil and gas, EOG, headed by Mark Patha [ph] **[Papa]**; Portland General Electric, Ken Harris and Peggy Fowler; and, of course, our new company that went public this quarter, our water company, Zurich **[Azurix]** headed by Rebecca Mark [ph]. And those businesses will continue to support our wholesale and commodity and retail business, as you see above there, and more investment businesses for us, with the exception of the pipeline group which really will maintain an essential role as probably a core business for us. That's pretty much the organization.

Now, I know there are no questions on that at all. Everybody knows where they work, but I think it's exciting. It's exciting as we have a nice flat organization. You can see we have expanded the executive committee of Enron, and we've expanded it because it needs to be. We're a big company now, and we have to have people who are buying into the company and power to make decisions and doing more things in different ways, and that's what this does. It knocks down the silos, like Jeff and Ken said. It makes us all Enron.

And I'll tell you, I think if there's one thing I like to see come of this, it's us work together as a team

better than we have. If you can think of that, you take all these people in this room and all of this brain power and all this initiative and everything we can do and you head it one way--I mean, those growth charts that Jeff showed can be realized, but it's got to be a team effort, and I'm happy and proud to be a part of your team.

Thank you.

[Applause.]

MR. LAY: Boy, he sure did milk that, didn't he?

[Laughter.]

MR. LAY: I think Joe is the only person I know that can get a group kind of excited about an organization chart, even a black-and-white chart.

[Laughter, applause.]

MR. LAY: As I said earlier, Jeff did have to leave a few minutes early. So Joe and I are going to do the Q&A today, and, of course, Joe knows the rules here. I mean, I take the easy ones. He gets the tough ones.

Have you got one of these?

MR. SUTTON: Yes, I do.

MR. LAY: These are the ones that were sent in advance. We'll start with these, but, again, we will be picking up the cards. If you want to stand up and just ask

a question directly in person, that's great. I'll take the first one, and we'll just kind of rotate, Joe, if that's okay.

Let me say, we received, as you'd expect, a number of questions about future growth prospects and about the stock price and whether, in fact, it can keep going and all the rest of that.

Let me say, certainly, we're pleased with the growth that we've had in the stock price over the last 18 months or so, but, indeed, we think, in fact, it can go quite a bit further, and not long term, but near term.

You saw the story that Jeff laid out in his presentation as to the growth in the company, and we have tremendous growth throughout the company.

Our current PE is about 40. The average PE for "utilities" or pipeline companies or whatever is probably 15 to 20, but we have all of these other growth vehicles and platforms that have a tremendous future potential as well as the past performance.

And if you look at even a company like Williams Company which has about a 50 PE--and Williams, first of all, on the pipeline side, as Joe also said, we'll stack up Stan and his team and our pipeline group against any pipeline

group in the world, including Williams, and we think we have more growth potential there than they do.

In the case of Williams, all of their growth is basically coming from communications. That's not bad, but they've got one major growth platform, and that's communications.

We have about five or six major growth platforms, including communications, which we think very quickly can become as large or larger than theirs. We have all of the wholesale business, North America. We have all of the wholesale business in Europe. We have the new retail business. We have the international business. We have the communications business, and, of course, we also have things like water that are kicking in, too. So there's no reason to think that, in fact, we can't continue to have strong growth and an increase in stock price.

Let me say, even this morning, in response to the second-quarter results, which I talked about earlier, two very highly respected analysts have raised their target price now for this year, one to \$100 a share and one to \$104 a share, and--

[Applause.]

MR. LAY: And so we think, in fact, if we perform,



if we execute--and, again, the people in this room will determine that, and I've got a lot of confidence in you, just like Joe does--if we keep performing, in fact, we will see this stock price quite a bit higher even over the next year to 18 months.

Joe, are you going to take the next one?

MR. SUTTON: Sure.

One of the questions asked was how much of this year's performance is dependent on Enron energy services, EES.

I think the answer is that EES is making just enormous progress. They had a very good quarter this quarter. They signed the biggest outsourcing contract they've signed to date with Swiza [**Suiza**], and I think I am--we're very confident that Lou and Tom and their team will continue to perform exceptionally throughout the rest of the year.

I think in the first half of the year, they signed contracts that equaled the value of all contracts signed last year, just so far in the first half. So they are way ahead of schedule.

No doubt, they've got to have a very good quarter, this quarter, next quarter, which we are sure they will, and

as a result to that go earnings positive in the fourth quarter. That means that we built this business from the ground up, expensed all cost, and by fourth quarter are making money. And that's what we expect them to do. So we think the future looks very bright for EES. Certainly, the concept is one that we are worried about at some time, but it certainly makes great sense.

We find we're out there now, and we really have no--no real competitors. I mean, we're out there in a wide-open market, and we hope to export this internationally now. It's already in Europe.

[Side 2 of Tape No. 832 begins.]

MR. LAY: **[Sutton cont'd]** We're going to try to export it to South America and perhaps some other places around the globe. We think it's a real good business for us.

**[Mr. Lay]** Where does Enron wind fit in the new organization structure? Does Enron have any interest in developing other renewable energy businesses, such as hydroelectric or geothermal?

Well, first of all, we will continue to develop a lot of renewable energy projects around the world, including hydro, perhaps geothermal, wind probably, eventually solar,

but a certain standpoint of developing projects, financing projects, operating projects, again, kind of fit in with the particular structure in North America and other countries. We think we're as qualified as anybody to do that.

There is a question as to whether the actual manufacturing of the equipment, such as we do now, is something that is--whether it is or is not one of our core competencies. The wind business is doing great. They're doing a real growth--I mean, that's wasn't up there, but on a real growth curve right now both in this country and in Europe, and we'll continue to be involved in that.

I just at this point can't really say whether longer term we will be manufacturing wind equipment as well as developing and building and operating wind and other renewable-type projects.

MR. SUTTON: There was a question on the regrouping of the companies and how it might create a duplication of efforts and costs, administration functions. This is accounting, human resources, public affairs, et cetera, and the question is, is outsourcing of these sources a part of the overall plan. If so, please elaborate. If not, they would like to discuss the tactics for integration of these services across the businesses and target dates for

completion.

I think one of the advantages that Enron has is that we're in a lot of businesses in different parts of the world. We intend to find a more efficient way to move our people across businesses to increase learning opportunities and apply those competencies.

What this organization does is allows us to more freely move these people. So you may have someone come from the Southern Cone to Europe or from Asia to Houston or Houston to Asia, and we can--we can constantly move people that have these competency skills that we need.

I think we want to make the knowledge and experience that resides in all of our businesses easily accessible to all of our employees.

We will be looking at the organization, the best organization to accomplish this type of objective. That may mean, in some cases, we go to a centralized function, but, in most cases, we'll go to a decentralized function. We've been pretty successful so far with operating that way.

I would say in answer to the question, we really have no intention right now of outsourcing, the activities we're doing right now. Particularly, those are important to our business, like human resources and accounting, and what

we'd like to do is get more of a cross-utilization of our people across those functions.

MR. LAY: I'd just add one thing to what Joe said, and that is, again, going back to this whole subject of growth. We broke down today on a brand-new building here in Houston basically because we think it will add another 12- to 1,800 employees to the company over the next 30 months, the next 2-1/2 years. So, with that kind of growth, there are going to be a lot of opportunities for a lot of people.

This is somewhat related to Joe's question, but the culture of each Enron company is quite unique. It is part of what makes it exciting to work here. If such services as compensation, performance management, et cetera, are to be combined, does that mean that Enron is adopting a one-size-fits-all approach to these processes, and if so, aren't we losing creativity of those functions that are so unique to Enron?

Well, we don't intend to do anything to lose creativity and innovation, which we are known for, and, indeed, we are not trying to get one size fits all. In fact, we want to increase diversity, which is one of our--another thing that we emphasize in our press release, our internal release a couple of weeks ago.

So we will continue to tailor programs and policies and so forth that really make sense for the individual businesses, but then getting back to what Joe said earlier, I mean, the whole concept here is to make the whole organization a lot more transparent. I mean, all of the organizations a lot more transparent, a lot easier to cooperate, to work together, to transfer personnel, and so there will be a lot more seamless organization than what we have had in the past, but we will not do anything to destroy our creativity. And I think looking at this group and looking at what you have been doing, we don't need to worry about that.

MR. SUTTON: A question was asked, there are a lot direct reports to the Office of the Chairman. The question was, are Jeff and I going to divide their focus among these reports; if so, how. With the merchant business now being organized geographically, will there be anyone in between these various geographic leaders and the Office of the Chairman to serve a coordinating and leadership role between these groups and the Office of the Chairman?

Well, the answer to the first question or the last question is no. There will be nobody between the regional groups and the Office of the Chairman or the business units

and the Office of the Chairman.

I think Jeff and I will each focus our efforts on certain areas of the business, while at the same time we will share information across all the business units.

We have made an initial division of responsibility and shared that with all the people you saw on the chart up there. They will be able to brief you on who their go-to guy is, so to speak, in the company, but I think we'll continue to share, hopefully, across the entire Office of the Chairman, Ken, Jeff, and I, full responsibility for all the businesses at Enron.

MR. LAY: Basically, Jeff and Joe will each have responsibility for some functions and co-share responsibilities for some functions, and then my job is to keep an eye on Jeff and Joe.

[Laughter, applause.]

MR. LAY: And that's a big job.

[Laughter.]

MR. LAY: What are the primary distinctions between global functions and corporate staff functions?

Now, do you really want some more on organization?

In my view, corporate staff functions do have the varying degrees of a global coordinating focus, too, and

that is absolutely true. I think Joe even made that comment.

And basically, in the global functions, we've identified, as Joe I think said, certain activities that we previously had for the most part in one or two major centers or companies, and they have been somewhat shared and somewhat not shared across other companies.

And what we're doing now by moving things like risk management and engineering and construction and even the whole finance function of Andy and Jeff and a few others up to that global--or in that global function area means that they will have responsibility to oversee all of the businesses of Enron worldwide and provide services, provide capabilities, in some cases provide control that we need just to make sure that we continue the kind of growth that we've had over the last 2 years.

MR. SUTTON: A question was asked: Are there any plans for how the back office functions, such as planning, accounting, reporting, IT, AP procurement, et cetera, that currently exists where the merchant companies will be organized? It talks--the questioner says, on one hand, you could further centralize them into the geographic regions, or since the merchant companies do at least similar things,



you could argue that they could share a lot of the same functions.

I think, first of all, it's important that all of the IT will report to Mike McConnell. **[McConnell]** So that's clear.

Regarding other back-office activities, for the most part, we'll allow the regions to continue to staff and function in the back-office areas themselves within those business units.

Where it makes sense, however, we will have some consolidation corporately across the corporate staff to provide oversight [inaudible] to make sure that we maximize on efficiencies in these functions.

MR. LAY: And Joe answered this, but I want to add something to it. But the next question is, will all of Enron IT be under Mike McConnell's direction, and, yes, it will. We are getting all of that aggregated corporate-wide, worldwide under Mike.

And again, on Jeff's earlier comments, as we clearly have become a lot more of a knowledge-based and intellectual-based company--and that is what is differentiating us from everybody else in this industry and many other industries, it is more and more important that we

do a better job of expanding, of developing information technology, all other kinds of technology, in particular, communications technology, and all of that will be directed by this new group set up with Mike heading it.

Now, just to give you some idea of what--and another key component of this is e-commerce. We think probably within the next 2 years, we could become the largest e-commerce company in the world.

Now, it helps that we're in some of the largest markets in the world, and we're the largest participant in those markets. And our parts of those markets are growing very rapidly, but that's the kind of potential this has, which, of course, is not on the earlier slide, but we well could become one of the leaders, maybe the leader in e-commerce around the world. Now, that's very exciting because that, again, changes the whole dimension of the company, and Mike and his team will be taking that challenge on.

MR. SUTTON: You know, I just realized, I didn't give Mike a chance to take a bow. Mike? Mike's here. Come on, Mike, stand up. Come on. We've been talking enough about you. There you go.

[Applause.]

MR. SUTTON: You can best reach Mike by doing dot-com, McConnell.com on your laptop. So that's the last time you'll probably see him in person for a long time.

The next question is: What will happen to the role of the merchant finance group once the portfolio is sold?

I think the answer is that the entire portfolio is not being sold. There are certain parts of it that make sense to sell. Like any portfolio, you keep those things that are doing well or you sell them when you can make more money on them, and the things that aren't doing well, you try and unload. There are certain assets that we have sold, but the merchant portfolio is really--really quite large and quite extensive.

MR. LAY: This is a good question, particularly based on some earlier comments that we've all made, I think.

How well does our China strategy fit into our overall value creation strategy? Are we going to scale back our China experiment in the future? And if we cannot generate sufficient cash inflow to cover this bottom line in the near future, can't we take a step-by-step-option-based approach with China? How much impact does our recent reorganization have on our future business development

effort in China?

I suspect that's somebody that's working on China.

[Laughter.]

MR. LAY: But it's a good question from the standpoint, again, as we talk about becoming at least relatively somewhat less asset-based, capital intensive, more knowledge-based, and that might lead you to think that means we have become more short term. That is not true.

Quite the contrary, if we hadn't been long term a decade ago, we wouldn't be where we are today, and, indeed, in businesses like Enron energy services, we'd been willing to absorb about \$300 million in losses over the last 2-plus years to create that business because we could see the kind of potential it's got.

And likewise with something like China or India. India would be another good example. We paid a fairly heavy price developing our infrastructure in India, but, today, in fact--today, in fact, we have perhaps the most valuable energy franchise in that whole country, and it's got enormous potential, and likewise with China.

I mean, it's the most populous country in the world, perhaps sometime this century the largest economy in the world, maybe the first half of the century. China is a

place that we will continue to work.

It's difficult. Relationships are not that good between our two countries right now, our two governments.

Joe and I just got back there about 3 weeks ago, but they still want U.S. companies. They want U.S. investment. They want U.S. management, and they've got enormous needs and we can--we can help them with those needs, and there, as we have in the Southern Cone and as we have in India, we can create an enormous business, but the network business does not mean you become more short term-oriented. If anything, you probably become a little more long term-oriented in developing your talent, your knowledge base, your companies, your franchises, to make sure your first mover take the licks, and then you have got a really valuable franchise on the other end of it.

MR. SUTTON: I'll take the last question here that was sent in, and then maybe we'll do some from the floor here.

The last one I have here is: I would like to know what the impact that the recent organizational changes will have on rotating associates.

Well, I think the--none, basically. The reorganization will allow associates to move across more

business units. They will still be plugged into the same kind of experiences they've got right now. In fact, there may be a need for more associates because we'll have business units that need more people. There can be more opportunity.

So the good news is not much change, need more associates. The bad news is we're going to work you harder in these business units. So--

MR. LAY: And we may get back to a few more of these if we can, but we are going to try to wrap up by 4:30, just for your planning purposes, too.

Will there be a new stock option plan now that the last year--now that this is, I guess, the last year of the grant? Will it be comparable to the current plan?

And again, I think we are working on that right now. We've even already--as a matter of fact, this quarter, we set up some reserves, also, because there will be some compensation changes, too, resulting from all of these changes up here, but, certainly, we are going to continue.

This is not necessarily asked. It just might be asked, and inherent in this question, but we will continue to find ways that all of our employees will have exposure and participation in the growth and, of course, the

increases in the Enron stock price.

We had our ESOP. We got all of our employee stock option plan. We will continue those kind of plans because we think it's critical that everybody has an ownership position in the company.

MR. SUTTON: There's one here that says considering Enron's spectacular stock price performance, will there be any new stock option programs for general employees?

We will continue to have an Enron stock option plan. I believe this one runs out this year, and I think it's safe to say that we are going to continue that program. We think it's important for the employees to have ownership in the company, and, in fact, I'll even tell you that we're expanding that internationally now to our international employees for Enron as well.

We are doing one in South America, looking at doing one in India, to try and bring those employees also in an ownership plan. So, rest assured, you will continue to get those benefits.

MR. LAY: Question. Is there an explanation for the lack of diversity on the executive committee?

And there is. It's unsatisfactory, and we've all

talked about this internally. The way things got shook out, there's where it is, but there will be some other things happen that will make sure and increase the diversity on that committee even over the next, probably, few weeks or so. But we have to do a better job on diversity. We just have to, to keep our competitive advantage, our competitive edge, and we got to move more women, more minorities higher in the organization.

Somebody may have noticed that we formed a diversity committee. I am going to serve as chairman of it. Of course, Cindy Olson has primary responsibility for that inside the company. She's working hard at it. She took that over January 1 this year. We have some ideas, some plans, in fact, we will be implementing to increase diversity throughout the company.

Now, Joe is going to head vision of values committee which is equally important, that we keep pushing our vision and values throughout our organization worldwide.

And let me say Joe has got even more enthusiasm for that than he does the organization chart.

[Laughter.]

MR. LAY: And, of course, Beth Tilly [ph] has been leading a lot of that effort for us, but that effort will be



escalated, just like our diversity effort will be escalated.

MR. SUTTON: Question from the audience. What will--when will the waiting list start for the new parking garage?

[Laughter.]

MR. SUTTON: Today. All right? We are going to arm-wrestle for it right here in front.

I am sure there will be time for that. I don't know.

[Laughter, applause.]

MR. SUTTON: And the other question on the same card is: When will ECT become Enron North America?

Today. It's Enron North America. We're already there. That happened last week.

MR. LAY: Are we going to repeat the J-block [ph] mistake in acquiring too much L&G for India powerplants?

No.

[Laughter.]

MR. LAY: Kind of been there, done that.

And as Mike McConnell would tell you, that wasn't much fun.

But in the case of L&G in India, first of all, everything that we have contracted for thus far has an

offtake at the powerplants that we either have built or will build or have under construction right now, and, of course, the government of [inaudible] through its [inaudible] state electorate board has the obligation to take the electricity. So, indeed, that's already sold and already committed to, under contract, and, of course, paid for on the other side of both powerplants.

We are now looking at the pipeline on the west coast of India which will serve other powerplants and other industrial facilities, and, of course, we will be buying more L&G for that. But, again, we will keep a pretty balanced position.

You may not ever be totally in balance, just like we're never totally in balance even in all of our natural gas and electricity trading and so forth, but we will be.

Rick Buy is over here shaking his head because Rick is the one that always signs off on the risk factors on these projects before they bring them to either the Office of the Chairman or the board. And we will make sure that we placed it.

We do intend to kind of begin developing, though, a spot L&G market around the world, which could also kind of change the whole L&G business worldwide, but that will be

very limited and very limited exposure.

MR. SUTTON: This question is on the stock split. The stock split results in twice as many shares for shareholders at half the value. Are the dividends also half the value?

I think what you find is the dividends are key to the base they share, and so your dividends won't--I mean, they may increase if we make more money, but the dividends will be the same over your basic holdings.

MR. LAY: What is the status of the Pittsburgh-California merchant plant? It says ECT--now it's Enron North America--is developing.

That, I think, is well underway. Is that right, Rick? But at least it's being very seriously evaluated right now. So, probably, we will move ahead with that since we bid on another plant out there where we lost and we know we can build a plant on our side for about half of what the winning bid was on that.

There's another question here on the minorities, but I hope I've addressed that. But we are going to really get even more and more aggressive and getting more minorities into higher positions in the company and just more diversity throughout.

MR. SUTTON: This question says: Will the new building be energy-efficient, but well lit, cool, and comfortable, and not wasteful of the most scarce resource, our time? And then in parentheses, it says, "I hate waiting for the energy-efficient copiers to warm up."

[Laughter.]

MR. SUTTON: Someone is having a bad day or maybe a bad copier.

**[Mr. Lay]** Please explain, elaborate on what is broadband or bandwidth, I think they're talking about, and how can this be traded as a commodity.

I will get to the bottom of my technical knowledge of this real quick, but bandwidth basically is how you transmit data or even voice from one location to another. And of course, in the case of our fiberoptic system, it will be all data. It will be an Internet protocol-only type system, the first of its kind in the country, higher-quality transmission, higher quality particularly for video, audio uses, which increasingly all transmission will go to, whether it be e-commerce or otherwise, as well as just entertainment events and so forth, but, indeed, it's capacity.

And the best analysis **[analogy]** maybe for us is

the capacity, kind of like a pipeline, and we will be trading that capacity worldwide.

Where, in fact, if people have a long--have more bandwidth than they need, they will be selling. If they have less, they will be buying. But just again creating markets, market-makers, just like we've done in so many other markets. I guess we now have 400 and--about 450 different major products that we transact in, that we make markets in around the world.

Of course, a lot of those are tied to electricity and natural gas, but several are not, or they're tied indirectly to those. So, again, we think this could be a tremendous opportunity for us. We think nobody is better qualified or equipped to do this bandwidth trading than we are, and it is just an enormously large, fast-growing business.

MR. SUTTON: This is--when Enron structures a positive change, do you plan to adhere to this strategy in Asia drawing on in-house expertise? If not, what is the rationale for bringing in outside people?

I think, for the most part, we have pretty much been using outside expertise where we can. We bring in outside people whether they bring in competency or something

that we need in any of our regions. We try and have the best people to expand our capabilities in all of our markets, and so I don't think that will change much. We will continue to try to get the best folks we can get in our markets to build it.

MR. LAY: Not surprising, these expressions keep coming up. Where are the female speakers?

I was inclined to say, "Well, we brought Joe instead."

[Laughter.]

MR. LAY: But not really, Joe. But, clearly, I mean, we've--we need--

MR. SUTTON: You know, for years, people thought I was Rebecca Mark.

[Laughter.]

MR. LAY: Well, I was going to talk about Rebecca, and, certainly, as I've said repeatedly, we've got to do a lot better job. But we've got some real success stories, too. I mean, Rebecca Mark is one of the most senior--maybe the most senior female executive in the whole energy industry worldwide and certainly still a key part of our management team, running a very key new business for us, and we've got a lot of others.

Of course, Amanda Martin who is heading up all of the America's water business now, had very senior positions in Enron North America.

Cindy Olsen, Rebecca McDonnell, which, of course, is now heading up all of Asia for us. We have--and, of course, Peggy Fowler heading up Portland General. So we have a lot of very senior female executives, but not enough. But not enough. And that's just all part of this diversity issue that we are going to just keep pushing as hard as we can.

MR. SUTTON: This is really the last one I have here. It says ECT has spent many millions of dollars developing proprietary trading software and back-office software. Why are we now willing to sell this to competitors here in the U.S.?

I don't think we are. I think we are still pretty protective of that. We may be doing it in some cases from--to gain a partner or a competitive advantage, but for the most part, we still guard that fairly carefully.

MR. LAY: When do you think the stock price will reach \$100? I've kind of alluded to that, but I think it's very possible before year end. Obviously, it depends on the stock market and a lot of other things, but I am--more

importantly, I think there is a fairly good chance we could see the stock price double again over the next year to 18 months. Now, that's what's exciting.

You do that math on your Enron stock.

[Laughter.]

MR. LAY: Here, one more. What about job share? This would be great for mothers, people who want to work part time.

We have a number of job-share situations in the company, which, again, I think is one of the things we're doing more right in this whole diversity area, but we have some fairly senior people in the company that work half time and doing an excellent job for us.

Elizabeth Abanowski [ph] would be one in the legal group, but there are several of those around the company, and we do give our supervisors, our managers, our executives a lot of flexibility on those kind of programs. So, if that's something that is of interest to whoever wrote this note, I will tell the rest of you, just pursue it.

Are there other questions in the audience that you'd like to--and also, anybody want to just answer a question?

MR. : **[unidentified speaker]** Could we



have the microphone back there?

MR. LAY: We've got about another 7 or 8 minutes, if we need it. We can get back to some of these questions that were submitted in advance, but anybody like to stand up and ask a question?

QUESTION: [Inaudible.]

MR. LAY: Are you considering [inaudible]?

[Laughter.]

MR. LAY: I think that's unfair.

Yes, we are. Yes, we are, very, very seriously.

And let me say it's something that we've looked at and looked at and looked at for years, as some of you know.

And, of course, I have explained before, there are some really stuff, strict, whatever, requirements on things like day care in downtown Houston, and they've got to be on the ground floor and you've got to have a certain amount of space to play outside and those kind of things which make it very difficult in a number of the buildings, including ours. Now, I think some of those rules are not necessarily--are not necessary, but they're there.

And, of course, secondly, when we run surveys, it's a mixed bag. I mean, a lot of people like to leave their children closer to home versus closer to their job

site and not drag them into town or out of town at night and the rest of that, but we are looking at it seriously. Again, Cindy and Beth are taking the lead on that with Bill Donovan, and we may--I mean, we are just trying to look through all of the implications, the feasibility, the cost and all the rest of that, but, certainly, we are going to try to do everything we can, particularly in making this move to the new building, and some of these things may happen long before we get in the new building, but to make the workplace as pleasant and productive as possible for all of you.

MR. SUTTON: Go to the microphone. Why don't you ask your question. Go ahead. Is there a question over there?

QUESTION: Yeah.

MR. SUTTON: Go ahead, right over there.

QUESTION: Along with the question, I would just like to comment that I am one of those persons that you mentioned before that come out from one of the joint ventures of companies we've had in other countries that have come to Houston. So I think it's been a heck of a ride, and it's really interesting. So I totally agree with your perception.

Now, the question basically is this, and it's focused or intended for Mr. Lay. I believe what we are going through here, Enron is going through, from being a company that has been based in North America with some international business into a company that is going into whole global business. So that has some growing pains associated with it, and I just wondered what was Mr. Lay's vision about HR function in this whole deal going through this whole process, HR function as a process through to get through this global vision that we are pushing forward now.

MR. LAY: Good question, and a couple of things. Of course, one good thing about the reorganization is that we are bringing on Sanjay Bottenhogger **[Bhatnager]** and Dee Midis [ph], Crystal Dula [ph]**[Chritodoulou]** --have I got that? I really spilled over his last name, but Dee Midis is on our executive committee, and they are both extremely bright, capable executives.

So we are starting to get a more international flavor on our executive committee, which is important, too, but on your question, I think we are going to be looking hard at that whole area.

As Joe inferred, I mean, HR is becoming more and more critical all the time as we are becoming more and more

dependent on intellectual capital, and so we just got to do even a better job there of deciding exactly how much of that ought to be centralized at corporate for the whole company and how much should be decentralized, but there will be some of both.

Rest assured that each of the groups will continue to have their own HR function, but there may be more centralization of things like some of the recruiting, some of the training, some of the other things, some of the rotation.

Just as an example, I mean, at GE, the chairman and CEO, Jack Welch, controls the senior talent. No business owns it, and he can pick them up and move them at will. And he does that.

And increasingly, to be a really broad--an intellectual capital-based company, you've got to do that because you've got to make sure you're always using your best talent in the best place in the company.

So--but the [inaudible], we are going to be working on over the next few weeks and months, but there will not be that much disruption, in case you are concerned about that. I mean, we will make sure that doesn't happen, but we will do even a better job of identifying, developing,

recruiting--identifying, developing talent.

QUESTION: Hi. My question centers on advertising. I've just recently seen a television ad from Qwest and a magazine ad from Williams, and when will Enron start announcing plans, especially on our telecommunications division?

MR. LAY: Go ahead.

MR. SUTTON: I think it's important to point out that we are involved right now. Is Mark Palmer here? He was here. Okay. Mark is not there.

We are involved right now in a new ad campaign for Enron. In fact, we had the first real review of it last week, and I think you will find when it comes out, it's really quite--you know, quite good.

MR. LAY: And let me say, this is just one more--let me say, I've seen some of those same ads, and some of them, I'm not sure are worth the money, but--not to be critical or something.

[Laughter.]

MR. LAY: But, indeed, this is another space I think we can all--we get so much positive earned media, like an excellent article in the Sunday New York Times Business Section just 2 weeks ago and many other places, but because

of our position both in earned media and our position in these different markets, we intend to also make sure we've got the brand, that we've got the logo, we've got the brand for all of our business, that we own it. I mean, it is the number-one brand when you think about electricity, natural gas, communications worldwide. You think about Enron, and I think we can get there pretty quickly.

QUESTION: Denise Bradley, Enron Communications, Portland, Oregon.

Let me start by saying we're very, very pleased and happy to be part of the Enron family. Can you elaborate a little bit more about how you intend to integrate us into the Enron family, and should we be packing up and preparing to move to Houston any time soon?

[Laughter.]

MR. LAY: Not necessarily. And when I say that, we will maintain a significant presence in Portland for our communications, but, increasingly, there will also be a lot of people for Enron communications here in Houston. And obviously, particularly, the bandwidth trading angle to it, that best fits with everything else we do here in Houston. So there will be a lot of growth in communications in Houston, but there will still be a significant activity in

Portland.

And I wasn't trying to be cute about that, not necessarily. Obviously, it's going to depend a lot on what activity you are involved in and over time kind of what makes the most sense to have in Portland, what makes the most sense to have in Houston, but, again, in that business, there is going to be enormous growth.

We have been adding, oh, half-a-dozen or so people a week, I'd say, 25 or so people or 25 people a month, and that's accelerating, and we can see right now where we'd like to add another 100 to 150. I mean right now, immediately here in Houston to kind of get up and running some of these activities. So it is going to be a tremendous growth opportunity for the company, but also for the employees.

QUESTION: As we implement the new structure for the company, how are we going to avoid creating new silos around different regions?

MR. LAY: I'll let an organization expert talk about that.

[Laughter.]

MR. SUTTON: Certainly, that's a very good question, and that's a fear. Any time you take new

organizations, you give them profit-and-loss targets.

There's an inherent competition between those units.

We are hoping to do it by--as you can see, we have a very large executive group now that will meet once a week, and more frequently probably than that to discuss strategy as things are going forward in a sharing more.

I think also by doing it this way and with the global functions, we have across of them. Across these units, it sort of forces the cooperation we didn't have before, but it's a serious concern.

I'm not going to say we have the exact answer for it, but I'll tell you, we're going to work very hard to keep that from happening across the entire company.

I think the global functions are helpful, the corporate staff functions, and what they are doing will be helpful, the interrelationships we'll have with each other as part of this executive group that are running the company. And I think between all of those, we are hoping that we will have a much--a much closer, much more collegial environment between our business unit.

I got one more. You can answer that one.

MR. LAY: Let me go and--you don't want this, do you? No, that's fine. That's good.



But let me go very rapid--very rapidly and shortly through just three or four more questions that were submitted in advance to make sure we've covered these. We've covered a lot of these, of course, in both the presentation and the Q&A.

One has to do with the fact of the recent Senate bill. They basically deregulated electricity in the State at the retail level, and the impact on Enron. It's a very positive impact. I am not going to go into a lot of detail, but we think that's basically a good piece of legislation, and it will open up this 20-plus-billion-dollar retail market in Texas for competition.

And again, if there's one thing we've demonstrated, we thrive on competition. So, now, the market will not be open until January 1, 2002. So it's a couple of years away, but, of course, we will be getting geared up and up and running much before that.

Will Enron take any more Korean projects beyond the [inaudible]?

Why don't you answer that one. You were just there.

MR. SUTTON: We were just there about a week ago.

The question is: Will Enron take on any more

Korean projects beyond the SK Enron deal? If so, what strategy will be employed to succeed?

We've been very, very pleased with our joint venture with SK. Just for your information, if you don't know, we bought a half-interest in five gas distribution companies and one LPG terminal in Korea the first part of this year in partnership with SK which is a very large holding--I think the fifth largest company in Korea, and we have had a great success with that venture.

We bought it when the market was low. As you recall, they were going through a devaluation. So we bought it with the market low.

Based on market values now, we have recouped our entire investment after only 6 months and are still making money on the LDCs, and we are very hopeful that market will deregulate to a certain degree and they will privatize.

Right now, they've got a major gas company and a major electric company. If they can privatize those two resources over time--those two companies over time, we will be in a great position to take advantage of that and really grow our business more. So I think there is a chance we will do more in Korea, and it will be based on our overall strategy that Jeff talked about, which is assets, contracted

assets, the market-makers.

And I'd say right now, we are in the physical assets part of that strategy in Korea.

MR. LAY: Is Enron considering having a restaurant club at the top of the new Enron Building similar to the Troy [inaudible] of the Exxon Building?

No. And for those of you who were at the ground-breaking this morning, Cesar Pelli [ph] kind of **[delete "kind of"]** commented on that. But those top two floors are very special floors, and higher ceilings and, of course, great views of the whole city. But those will all be turned into conference rooms and other rooms for meetings and employees for training and those kind of activities, which, again, is all part of emphasizing that we have really a great environment for our training and employee meetings.

Is Enron planning to upgrade the body shop and something like a 24-hour Fitness World or Gold's Gym provides when we finish the new building, consider outsourcing the body shop?

We--as a matter of fact, it is outsourced. It has been outsourced for quite some time. Medifit [ph]. But we are going to upgrade it, and we are beginning to do that right now, and we are going to expand it. We've already

approved a plan to do that, get it underway, and we are looking to expand extended hours. And indeed, the day may come when that could be a 24-hour day, 7-day-a-week fitness club. SO you can go there any time you can go anywhere else. We are looking at all of that. We haven't made those decisions yet, but we are certainly trying to find ways to make it even more--more attractive.

Any other burning questions from the floor? Here you go.

QUESTION: It is just a question regarding bonuses. With the new corporate structure, are employees going to be rewarded on the performance of their business unit, or are they going to be awarded on the performance of Enron as a whole?

[Laughter.]

MR. SUTTON: Hopefully, there is a correlation between the business unit and Enron as a whole, but I think the answer to that is bonuses are based on your performance.

As other compensation--and Ken may want to correct me, but as other compensation, you get paid a salary, and that is based on what you--what you'd expect to get yearly.

A bonus is based on your performance. If your performance is tied to your business unit earnings, then you

should expect a good bonus. If your performance is based on Enron earnings, you should expect a good bonus if they do well.

And I think the answer is the bonus is decided by your business unit, based on your performance in that business unit, and that's how you are rewarded. I mean, there is no--there is no magic to it. It's an at-risk amount, basically, based on how well you do, and it's--I think that in terms of long-term compensation sometimes, that's related more to Enron's growth as a company because, if you have long-term compensation like stock options or stock, then those vest and those reward based on Enron's long-term earnings as a company. But your individual performance is usually business unit-related.

MR. LAY: I think we are going to need to wrap it up now. We are already about 5 minutes past what I said is our deadline.

But I am going to take about three quick questions here. Will Enron employees receive a discount on Astros Enron field tickets? I think that's a good question.

We had the opportunity to get tickets through Enron, et cetera, et cetera. Another note I heard on TV, that mostly Hispanic contractors are constructing Enron

Field, and most of [inaudible], et cetera, will be run by Hispanics. Do we have any part in making decisions to use minority-based companies?

I think it's a great idea. As a matter of fact, we were very instrumental in setting it up on the front end with the Astros and with the Sports Authority to do everything we could to maximize participation by minority contractors, and with a target of 30 percent participation.

Let me say the Sports Authority has even broken up a big contract in smaller pieces to make that possible.

From what I know, it's been pretty broadly based. I mean, Hispanic, African Americans, some Asians and so forth.

And let me say, [inaudible] Jefferson, the head of the NAACP in town, has been the one kind of overseeing at least the African-American portion of it and he's very pleased with it. So I think, again, it's a situation where we have demonstrated that we can not only get a good facility at a minimum cost, but get more active participation by a minority community.

And let me say, we will also be trying to do about the same thing on our new building.

What is the long-term and short-term future for

Zurichs? What is the predicted stock price for Zurich's [Azurix] for this year? You get us in the forecasting mode here.

We have been fairly candid--not fairly. We've been very candid from day one that the water business may not be a long-term core business for us. We thought, and we still think and I think we are demonstrating, that we could apply a lot of our skills and talents to that business and create significant shareholder value for our shareholders, whether we stay in it or not long term.

And let me say, they are off to a great start, not just the stock price, but everything else is off to a great start. And it is an enormous business and enormous potential.

That will be a significant shareholder, I think, for quite a while, but, again, we have already gone public with it, as Joe said earlier, and a good public offering. The stock price is up. I have no idea what to tell you on the stock price for year end. I think it could go higher because I think people are starting to understand the potential here, and, again, they've got some pretty exciting technology things they're talking about, too, which could really change the nature of that company. And it might

change the nature of our involvement in that company.

Finally, now that the second building is underway, when are we going to start on the third building?

[Laughter.]

MR. LAY: I like those kind of questions. Will it be in Houston?

Well, I mean, I think we have pretty well established that this is our headquarters, and this is--for those who heard him this morning, as the mayor pointed out, I mean, this is the electricity, natural gas, energy capital of the world. I mean, I guess on a BTU basis, the comment was made--maybe this [inaudible], but only in the Hague are there more BTU's of energy traded daily or marketed daily than there is in Houston, Texas, and we are growing a hell of a lot faster than they are. So this is the right place for our businesses, including, we think, a good chunk of this communications business.

A third building? Let's get the second one built first.

Again, I thank all of you. The performance that we have obtained and the future that we have--[audio break].

[End of audiotape recording.]

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